



1 APPEARANCES:

2 COMMISSIONERS PRESENT:

3 CHAIRMAN PAT WOOD, III, Presiding

4 COMMISSIONER NORA MEAD BROWNELL

5 COMMISSIONER WILLIAM L. MASSEY

6 SECRETARY MAGALIE R. SALAS

7

8 PRESENTERS:

9 DAVE PERLMAN

10 MARY AGNES NIMIS-OMRT

11 SARAH McWANE-OGC

12 JAN MACPHERSON-OGC

13 ROLAND WENTWORTH-OMTR

14 ELIZABETH ANKLAN-OEP

15 MICHAEL McGEHEE-OEP

16 WAYNE GUEST-OMTR

17 CECILIA DESMOND-OGC

18 RICHARD FOLEY-OEP

19 TERRY TURPIN-OEP

20 JOEL ARNESON-OGC

21 BOB MACHUGA-OMTR

22

23

24 ALSO PRESENT:

25 JANE W. BEACH, Court Reporter

## P R O C E E D I N G S

(11:00 a.m.)

CHAIRMAN WOOD: Good morning. This open meeting of the Federal Energy Regulatory Commission will come to order to consider the matters which have been duly posted in accordance with the Government in the Sunshine Act for this time and place.

Would you please join me in the Pledge to our Flag?

(Pledge of Allegiance recited.)

CHAIRMAN WOOD: As we come to the end of the Government's fiscal year, it is my bittersweet task, as it was at this time last year, to recognize some employees who are retiring as they have taken the retirement package. So I want to go over to the other podium here.

We have some folks here--the ones here today have among and between them, over 250 years of government service. That is only representing ten people, and we have some 35 people, and I will read all of the names off at the end of my presentation for the folks who have either already gone into retirement or who, for another reason, couldn't be here today.

Our first recipient of the Career Service Award--and I will present to three people in the Office of Administrative Litigation--goes to Joseph Kane, who started

1 work with the Federal Power Commission in March of '72.

2 (Applause.)

3 CHAIRMAN WOOD: Also from the Office of  
4 Administrative Litigation, starting date here in 1971, is  
5 Ron Lucas.

6 (Applause.)

7 CHAIRMAN WOOD: And finally, with a start date at  
8 FERC here in '79, but I assume other government service,  
9 because I can do the math pretty quick, is James Taylor, 33  
10 years.

11 (Applause.)

12 CHAIRMAN WOOD: The Office of the Executive  
13 Director--we have two recipients. The first is receiving  
14 the Exemplary Public Service Award for her quality work, as  
15 recommended by her immediate boss, but also by a number of  
16 prior Commission Chairmen, is Sarah Tripp. Sarah started in  
17 1973 at the Bureau of Power here at the Power Commission,  
18 and has many wonderful jobs since then. So we'll miss you  
19 very much.

20 (Applause.)

21 CHAIRMAN WOOD: And also here from the Office of  
22 the Executive Director, who has had 33 years and eight  
23 months of Federal Government service, is Ms. Josephine Doris  
24 Wiggins.

25 (Applause.)

1                   CHAIRMAN WOOD: Our record-setter of the bunch  
2                   that's here today, from the Office of General Counsel, with  
3                   39 years and 11 months--we'll just keep you busy for another  
4                   month if you want--

5                   (Laughter.)

6                   CHAIRMAN WOOD: --who started work at the  
7                   Commission in 1968, is Merle Bess.

8                   (Applause.)

9                   CHAIRMAN WOOD: This is an old friend of mine  
10                  when I was here at the Commission, back in the early '90s.  
11                  I had the pleasure and honor of working with the gentleman  
12                  who sets high standards for himself and for all the rest of  
13                  us, and we're going to miss you a lot. Mark Schaffer has 27  
14                  years of government service and has been here at the  
15                  Commission since '88 and before that at the Interstate  
16                  Commerce Commission. So, best of luck to you, Mark.

17                  (Applause.)

18                  CHAIRMAN WOOD: Of the 35 people who will be  
19                  retiring in September, we have one that was a member of the  
20                  Senior Executive Service and was a gentleman who, this year,  
21                  performed a highly visible role in coordinating the  
22                  Commission's effort in investigation of the power and energy  
23                  market activities in the Western United States in the years  
24                  2000 and 2001, producing a report so seminal and big that it  
25                  has become simply known as the Gelinas Report.

1 (Laughter.)

2 CHAIRMAN WOOD: So I would like to present also  
3 an Exemplary Public Service Award to our outgoing SES, Mr.  
4 Don Gelinas, who has been here since 1973.

5 (Applause.)

6 CHAIRMAN WOOD: Also from OMTR and who began  
7 service here in June of 1975, is Albert Rogers.

8 (Applause.)

9 CHAIRMAN WOOD: And also another old friend from  
10 when I was here last time, and then at the time was the  
11 Confidential Assistant to then Commissioner Moeller, and now  
12 a stalwart in the Office of the Secretary, and has been with  
13 FERC since 1974--you don't look old enough. I'm doing the  
14 math and it doesn't work--is Pat Snesrud.

15 (Applause.)

16 CHAIRMAN WOOD: I would like to also, for the  
17 record, recognize the folks who couldn't be with us today.  
18 We do have a number in the Office of Energy Projects that  
19 are actually stationed outside of the Washington office in  
20 the five regional offices, but I'd like to recognize here in  
21 the Washington office, Jack Duckworth, Peter McGovern, and  
22 Glenda Godwin, who are leaving, and in the Chicago Regional  
23 Office, Elizabeth Bethke; in the New York Office, Rebecca  
24 Debes; and also in the Chicago Office, again, James Kolak  
25 and Mary Lauermann and Charles Klinkenberg; in the Portland

1 Regional Office, Martha Billings; in the San Francisco  
2 Regional Office, Mack Bautista, Robert Peacock, and Ira  
3 Simmons.

4 Also not here today in OGC is Tim Abendroth,  
5 Marty Novak in OMOI. In OMTR, we also have Bill Greene, Lou  
6 Ann Griffith, Christine Walker, Donald Zero and Grace Zero.

7  
8 In the Office of the Executive Director, in addition to  
9 Sarah and Doris, we have Wayne McDaniel, Herman Dalgetty,  
10 and Kenneth Anderson.

11 And in OAL, we have So Kim, Dawn Martin, James  
12 Taylor. I think that should be--no, I already said James,  
13 I'm sorry. I missed one. Don Martin and So Kim from the  
14 Office of Administrative Litigation.

15 So, we're losing a wealth of talent this year,  
16 but that means that the rest of America gets them, so I look  
17 forward to seeing what you all do in your second career, but  
18 thank you for what you gave to all of us.

19 (Applause.)  
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1 CHAIRMAN WOOD: All right, thank you.

2 Madam Secretary?

3 SECRETARY SALAS: Good morning, Mr. Chairman and  
4 good morning, Commissioners.

5 The following ID items have been struck from the  
6 agenda this morning since the issuance of the Sunshine  
7 Notice on September 3rd, 2003. They are as follows:

8 E-2, E-45, E-53, G-1, G-18 and H-1.

9 The consent --

10 CHAIRMAN WOOD: Just for the record, I believe on  
11 all but one of those items, we're going to attempt to move  
12 those notationally in the next few days, so people that are  
13 waiting on those orders shouldn't have to wait too long.

14 SECRETARY SALAS: Duly noted, Mr. Chairman.

15 And the consent agenda for this morning is the  
16 Electric Items E-5, E-8, E-11, E-12, E-13, E-15, E-16, E-17,  
17 E-19, E-20, E-21, E-24, E-29, E-30, E-31, E-33, E-35, E-36,  
18 E-39, E-40, E-43, E-44, E-46, E-47, E-49, E-50, E-51, E-52  
19 and E-54.

20 Gas items G-2, G-3, G-5, G-6, G-7, G-9, G-10, G-  
21 11, G-13, G-14, G-15, G-16, G-17, G-19, G-20, G-21.

22 Hydro items H-2.

23 Certificates C-1, C-3, C-4, C-5, C-7, C-8, C-10,  
24 C-11, C-13, C-14, C-15 and C-17.

25 As to G-19, Commissioner Brownell is concurring

1 with a separate statement and Commissioner Massey votes  
2 first this morning.

3 COMMISSIONER MASSEY: Aye.

4 COMMISSIONER BROWNELL: Aye, noting my  
5 concurrence on G-19.

6 CHAIRMAN WOOD: Aye.

7 SECRETARY SALAS: The first item in today's  
8 discussion agenda is A-3. This is the Federal Energy  
9 Regulatory Commission's strategic plan for fiscal year 2004  
10 through 2008, and the chairman has the remarks.

11 CHAIRMAN WOOD: Thank you, Madam Secretary.

12 I would just like to, as we did at this time last  
13 year and at this time two years ago, to put forth for our  
14 consideration and approval the Strategic Plan for the Agency  
15 that went into some level of detail about what we in fact  
16 expect to be doing in the near future both in the coming  
17 year and in subsequent years after that.

18 But the point of the Strategic Plan is to, again,  
19 put out our vision and mission and goals, but more  
20 specifically--and the changes that happen from time to time  
21 on this document do reflect that we have checked items off  
22 the list and other items have come on the list.

23 So I am pleased actually as I look back to where  
24 we were two years ago with the first Making Markets Work  
25 Strategic Plan, and was pleased to see that despite all the

1       trees that sometimes clutter our way, how much actually we  
2       had done to achieve our announced objectives here at this  
3       Agency.

4               We do have still more work to do in providing  
5       certainty in getting infrastructure and getting market rules  
6       balanced and beefing up our vigilant oversight capability,  
7       but I have to say it's a refreshing exercise to go through  
8       this with the Senior Staff with you all and with others to  
9       really look at what it is we need to do to accomplish our  
10      statutory objectives here. And I'm pleased to, based on  
11      consultation with all of the above, to put this before you  
12      all for our joint consideration.

13              COMMISSIONER BROWNELL: So in fact Pat, the main  
14      thing is that the first couple of years we planned the work  
15      and now we're really working the plan.

16              (Laughter.)

17              CHAIRMAN WOOD: I think that's the -- where'd you  
18      get that?

19              (Laughter.)

20              COMMISSIONER BROWNELL: From one of our leaders.

21              CHAIRMAN WOOD: I was agreeing, I do want to say,  
22      with -- this is a fun place to work, folks. Just in case  
23      ya'll need to know, we just kind of do this on a daily  
24      basis. Laughter is a good tonic.

25              I really don't have a lot to add to that.

1 (Laughter.)

2 COMMISSIONER BROWNELL: Maybe Bill does.

3 COMMISSIONER MASSEY: I've forgotten my lines.

4 (Laughter.)

5 CHAIRMAN WOOD: We script this very well.

6 (Laughter.)

7 COMMISSIONER MASSEY: This is a good document.  
8 It reflects our core values. There are three main goals  
9 stated here. They've been modified some but in looking at  
10 goal number one to promote a secure, high quality,  
11 environmentally responsible infrastructure through  
12 consistent policies, I think we're all reminded of how  
13 important that goal is now for all those who are involved in  
14 the regulation of electricity and natural gas industries,  
15 and I think this document sets out our responsibilities with  
16 respect to achieving that goal quite well.

17 So I commend you for bringing this before us,  
18 Mr. Chairman and, in looking this over fairly carefully, I  
19 can say that it reflects my core values here at the Agency.

20 CHAIRMAN WOOD: Great.

21 COMMISSIONER BROWNELL: Good job to the authors  
22 and thank you to the staff who worked so hard on this.

23 CHAIRMAN WOOD: Okey-doke. So with that I will  
24 entertain a motion to approve the document.

25 COMMISSIONER BROWNELL: So moved.

1 COMMISSIONER MASSEY: Aye.

2 COMMISSIONER BROWNELL: Aye.

3 CHAIRMAN WOOD: Aye.

4 Thank you.

5 SECRETARY SALAS: The second item for discussion  
6 this morning is E-3. This is a presentation on the guidance  
7 on Regional Transmission Organizations and Independent  
8 System Operator filing requirements under the Federal Power  
9 Act. And Mr. Dave Perlman will be doing the presentation  
10 this morning.

11 MR. PERLMAN: Good morning, Mr. Chairman and  
12 Commissioners. I have a brief presentation on a brief  
13 Order.

14 This item provides guidance and clarification  
15 regarding the elements of RTO filings in light of the D.C.  
16 Circuit's Atlantic City decision. Simply put, filings  
17 establishing an RTO will be considered pursuant to Section  
18 205, unless the transfer of operational control over  
19 transmission includes the transfer of ownership,  
20 proprietary interest, or lease of transmission facilities,  
21 or the transfer of jurisdictional contracts.

22 Consideration of such issues as the requirements  
23 for entry into or exit from, an RTO will be considered under  
24 Section 205.

25 The Commission will be looking to the same issues

1 set forth in Order 2000 in making its Section 205  
2 determination and, in the event that a member seeks to exit  
3 an RTO, such exit will be considered pursuant to Section  
4 205.

5 I'd be happy to answer any questions you may  
6 have.

7 COMMISSIONER MASSEY: This is a follow up to the  
8 Atlantic City decision?

9 MR. PERLMAN: Yes.

10 COMMISSIONER MASSEY: In which the Court of  
11 Appeals for the D.C. Circuit essentially said, if there's a  
12 change of operational control, that does not trigger Section  
13 203.

14 MR. PERLMAN: Correct.

15 COMMISSIONER MASSEY: And, but clearly, 205 is  
16 implicated by a number of filings that would be made here  
17 before the Commission that involve the formation of an RTO  
18 or exit from an RTO.

19 MR. PERLMAN: Yes. Typically the establishment  
20 of an RTO will require a multiplicity of agreements and  
21 arrangements among the participants and those types of  
22 documents will require 205 filings and a determination by  
23 the Commission that the balance of responsibilities among  
24 the participants in the ISO/RTO operator, is just and  
25 reasonable and include entrance obligations and exit

1 requirements and obligations.

2 And all of those things would be considered by  
3 the Commission pursuant to Section 205 and the specific  
4 desire to exit such an arrangement would also require a  
5 Section 205 filing that the Commission would consider.

6 CHAIRMAN WOOD: This applies to the court's  
7 interpretation of the Federal Power Act. Does this have any  
8 statement as to, since we will no longer be doing transfer  
9 applications, whether a state needs to go through that  
10 process or not?

11 MR. PERLMAN: This order does not address that  
12 issue.

13 CHAIRMAN WOOD: Okay. Anything else?

14 COMMISSIONER MASSEY: So we would not, we're not  
15 saying in this order that we're going to require a separate  
16 205 type filing for a transfer of operational control.  
17 We're saying:

18 As you go about transferring operational control,  
19 we will look at the documents that you are required to file  
20 associated with that, whatever they are, under the 205  
21 standard?

22 MR. PERLMAN: That's correct. As you can  
23 imagine, the establishment of an RTO has, typically, an  
24 element of such transfer and is embodied in typically  
25 contracts and agreements that the Commission has on file and

1 must find to be just and reasonable pursuant to Section 205.

2 So there's not a specific carve-out and  
3 requirement that there's an operational control transfer  
4 component. It is implicit in the establishment of these  
5 types of organizations and the Commission will consider that  
6 again appropriately pursuant to the Order 2000 requirements,  
7 which cover this matter regardless of whether it's 203 or  
8 205.

9 In this instance it will be 205 but the  
10 substantive considerations are really unchanged. The  
11 statutory application will be different.

12 COMMISSIONER MASSEY: Thank you.

13 Aye.

14 COMMISSIONER BROWNELL: Aye.

15 CHAIRMAN WOOD: Aye.

16 SECRETARY SALAS: The next item for discussion is  
17 E-38, Virginia Electric and Power Company with a  
18 presentation by Mary Agnes Nimis accompanied by Sarah  
19 McWane, Jan Macpherson and Roland Wentworth.

20 MS. NIMIS: Good morning. With me today are  
21 Sarah McWane, Jan Macpherson and Roland Wentworth.

22 In this Order, Virginia Electric and Power  
23 Company, Docket Numbers ER-03-743-001 and 002, the  
24 Commission denies Tanaska Virginia II Partners, L.L.P.'s  
25 request for rehearing of the extension of the competitive



1 power ventures Cunningham Creek, L.L.C.'s milestones.

2 In addition, it accepts VEPCO's compliance  
3 filings, subject to modification, and provides guidance on a  
4 queue management issue.

5 The Commission has stated that it is in favor of  
6 allowing interconnection customers flexibility with respect  
7 to interconnection milestones.

8 However, it is important to ensure that  
9 interconnection queues do not become clogged with  
10 speculative projects. This Order provides guidance on what  
11 to do when the existing transmission system capability to  
12 support interconnections without upgrades is sufficient to  
13 accommodate only the generator or generators that hold the  
14 highest position in the interconnection queue.

15 In this situation, if the lower queue generator  
16 is ready to interconnect before the higher queue generator,  
17 the transmission provider must give the next generator in  
18 the queue the option of interconnecting using to the extent  
19 it can the transmission capability that has been set aside  
20 for the higher queue generator.

21 Then, if and when the higher queue generator  
22 completes its project and interconnection, the lower queue  
23 generator will have to fund the network upgrades needed for  
24 the higher queue generators' interconnection to the extent  
25 that the need for those upgrades is due to the lower queue

1 generators' use of the excess transmission capability and  
2 its decision to have its interconnection completed ahead of  
3 the higher queue generator.

4 The lower queue generator would also be  
5 responsible for any additional study costs. This ensures  
6 that, if the higher queue generator withdraws from the  
7 queue, the lower queue generator will not be in the position  
8 of having to fund network upgrades that turn out not to be  
9 needed.

10 However, it also ensures that, if the higher  
11 queue generator's project is constructed as planned, it will  
12 not be required to fund costs in excess of the costs  
13 applicable to its original queued position.

14 Thank you.

15 COMMISSIONER BROWNELL: So effectively what we're  
16 doing here is ensuring the flexibility that you mentioned.  
17 We are allowing Tanaska to move forward not at the expense  
18 of CPV but kind of moving them aside, as it were, until they  
19 can meet their milestones.

20 And are we not asking for them to report to us  
21 the progress on their milestones so there's an independent  
22 entity taking a look at that so we can ensure there is an  
23 objective view of progress?

24 MS. NIMIS: Correct.

25 COMMISSIONER BROWNELL: Well I'm really--we were

1       very interested in this Order and called this Order because  
2       periodically we do hear about clogging in the queue. And as  
3       the economy picks up and the markets pick up, I think it's  
4       important that we work out any of the queuing issues and  
5       encourage people to come forward and talk about those with  
6       us and make us aware of those. Because I think this is  
7       really a critical piece of the infrastructure that we need  
8       in the marketplace.

9               So I thank you for your work and all the  
10       questions we were bombarding you with yesterday.

11              CHAIRMAN WOOD: I appreciate your focusing on  
12       that in the Order to make it crisper and I wonder, Jan, I  
13       guess i'll ask you. Is this something that we ought to put  
14       in the Order 2003? Or was this, did this issue come up  
15       there?

16              MS. MACPHERSON: It didn't come up but we are  
17       naturally thinking about whether we ought to put it in the  
18       Order on Rehearing.

19              COMMISSIONER MASSEY: So CPV still has its place  
20       in the queue under this Order?

21              MS. NIMIS: Correct.

22              COMMISSIONER MASSEY: They just can't--

23              MS. MACPHERSON: This Order doesn't--let me  
24       just--this Order doesn't actually make a finding as to  
25       who's ready to go and who's not. It doesn't say, you know,

1 Tanaska, you can go ahead or CPV, you can go ahead. It just  
2 sets out the policy. Factual showings would still have to  
3 be made.

4 COMMISSIONER MASSEY: Right. But CPV is ahead in  
5 the queue?

6 MS. NIMIS: Right.

7 COMMISSIONER MASSEY: Yes, and under this Order  
8 they remain ahead in the queue?

9 MS. NIMIS: Correct.

10 COMMISSIONER MASSEY: And the issue we address  
11 here is, what if they don't move on their project within a  
12 reasonable period of time?

13 MS. MACPHERSON: Well it's--you know, the queue  
14 management issue is, it's not so much making a determination  
15 as to whether they aren't ready in a reasonable period of  
16 time. It's just saying, if the second person in line is  
17 ready before the first person in line, they can go ahead and  
18 use the unused capacity.

19 COMMISSIONER MASSEY: As long as they pay  
20 whatever increase in costs there are associated with that?

21 MS. MACPHERSON: Right.

22 CHAIRMAN WOOD: So with this policy, the second  
23 person in line is never going to be worse off than what they  
24 are under the old policy?

25 MS. MACPHERSON: Exactly. Nobody's going to be

1 worse off.

2 CHAIRMAN WOOD: You might be better off because  
3 you can get on line faster. And if the first guy never  
4 shows up, which can happen anywhere in the country, these  
5 underwriters can decide not to go forward -- then they're  
6 actually better off because they got on-line maybe even  
7 faster than they thought.

8 MS. MACPHERSON: Right.

9 CHAIRMAN WOOD: So if this is an attempt to do,  
10 and I appreciate you all focusing on it, is allowing  
11 basically a slow mover not to block the traffic for  
12 everybody else that's ready to scoot on out into the  
13 marketplace, which is certainly what we want, but yet  
14 preserve their rights they got by being first in line.

15 I like it.

16 COMMISSIONER MASSEY: Yes, I appreciate all  
17 staff's work on this. I think this is a very nice  
18 resolution of a complicated issue.

19 CHAIRMAN WOOD: All right, let's vote.

20 COMMISSIONER MASSEY: Aye.

21 COMMISSIONER BROWNELL: Aye.

22 CHAIRMAN WOOD: Aye.

23 Thank you all.

24 SECRETARY SALAS: The next item is C-2, Kinder  
25 Morgan Interstate Gas Transmission, L.L.C., with a

1 presentation by Elizabeth Anklam accompanied by Michael  
2 McGehee, Wayne Guest and Cecilia Desmond.

3 MS. ANKLAM: Good morning Chairman Wood and  
4 Commissioners. C-2 is the final Order issuing certificate  
5 for Kinder Morgan's Cheyenne Market Center project, which  
6 will allow the receipt, transportation, storage and  
7 subsequent redelivery of natural gas suppliers near the  
8 Cheyenne Hub and Weld County, Colorado, and the Huntsman  
9 Storage Facility in Cheyenne County, Nebraska.

10 This project consists of six compressor units  
11 along Kinder Morgan's system between the Rockport compressor  
12 station and the Huntsman Storage Facility, 10 injection-  
13 withdrawal wells at the Huntsman Storage Facility and  
14 various related facilities at an estimated cost of \$26  
15 million.

16 The storage component of this new service  
17 proposed will provide up to six Bcf of incremental storage  
18 at the Huntsman facility, as well as 41 million cubic feet  
19 per day of associated injection capability and 68 million  
20 cubic feet per day of associated deliverability.

21 By creating this new market center, Kinder Morgan  
22 will help address the needs of both producers and shippers  
23 in the Rocky Mountain region in several different ways.

24 First, the project will give shippers in the  
25 region new choices as to the type of service offered at the

1       hub. Particularly with regard to additional abilities to  
2       store gas and use receipt and deliverability points on short  
3       notice.

4               Second, the project will give customers gas  
5       supply management options required due to pricing volatility  
6       caused by varying weather conditions in the Rocky Mountain  
7       region.

8               Finally, the Cheyenne Market Center will serve to  
9       enhance deliverability options in order to provide an  
10      additional outlet for Rocky Mountain Gas to an otherwise  
11      constrained production area.

12              This concludes my presentation.

13              CHAIRMAN WOOD: Thank you, Elizabeth.

14              I'm just glad to see again Wyoming Projects  
15      moving through here, I appreciate the creativity of the  
16      company or Kinder Morgan proposing this service here. The  
17      Order does make some changes to that service in the interest  
18      of our broader open access and transparency policies for the  
19      last decade.

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1           That should not be an impediment to the proposed  
2       service, but if they are we will hear about it on rehearing.

3           I appreciate the effort, and I think it should  
4       result in some needed liquidity and good gas management  
5       options in that increasingly important region of our gas-  
6       producing part of the country.

7           COMMISSIONER BROWNELL: I would join you in your  
8       comments. We've heard a lot the last year from the  
9       producers on the lack of options and lack of storage, so I  
10      appreciate the Company's willingness to consider an  
11      investment and the development of that market hub, which I  
12      think will, in fact, add a lot of liquidity to the  
13      marketplace.

14           So I'm pleased with this and pleased with the  
15      work that you did to make sure that the larger issues were  
16      dealt with in terms of the long-term development of  
17      liquidity in the markets and competition.

18           COMMISSIONER MASSEY: Aye.

19           COMMISSIONER BROWNELL: Aye.

20           CHAIRMAN WOOD: Aye.

21           SECRETARY SALAS: And the final item for  
22      discussion this morning is C-9, Cameron LNG, LLC. This is a  
23      presentation by Richard Foley, who is accompanied by Terry -  
24      Turpin, Joel Arneson, and Bob Machuga.

25           MR. FOLEY: Good morning, Chairman Wood and



1       Commissioners. Item C-9 is a draft Order which grants final  
2       authorization to Cameron LNG, LLC, to construct and operate  
3       a new terminal to import liquified natural gas.

4               This construction operation authorization will be  
5       the first one issued for a new LNG import terminal in the  
6       continental United States in over 25 years. Cameron LNG was  
7       originally filed as a proposal by Hackberry LNG, LLC.

8               In May of this year, Sempra Energy LNG  
9       Corporation acquired the Hackberry project from Dynegy  
10      Midstream Services and changed the name of the project to  
11      Cameron LNG, after the name of the parish in Louisiana where  
12      the terminal is located.

13              The successful planning, government review,  
14      financing, and construction of new LNG import terminals is  
15      needed so that more sources of natural gas can be made  
16      available to meet the energy market's increasing demands.

17              In the years ahead, the increasing demand for  
18      natural gas in the United States is expected to exceed  
19      currently available supplies, thus increased imports of LNG  
20      are seen as a vital part of the nation's energy mix.

21              Eventual construction and operation of the  
22      Cameron LNG terminal will increase the number of LNG import  
23      facilities available to serve interstate energy markets to  
24      five. That will be two terminals in Louisiana and one each  
25      in Georgia, Maryland, and Massachusetts.

1           The proposed Cameron LNG project includes an LNG  
2       terminal that will be constructed near Hackberry, Louisiana.

3  
4       It will have three LNG storage tanks that will each hold one  
5       million barrels of LNG, which is equal to 3.5 billion cubic  
6       feet of natural gas.

7           The project also includes a 35-mile pipeline that  
8       will extend from the terminal to an interconnection with  
9       interstate pipeline facilities operated by Transcontinental  
10      Gas Pipeline Corporation in Beauregard Parish, Louisiana.  
11      At full operation, the terminal will have a maximum sendout  
12      of 1.5 billion cubic feet of natural gas per day.

13           In a December 2002 Order announcing its  
14      preliminary determination on this proposal, the Commission  
15      initiated a new policy for regulating LNG import facilities  
16      by not requiring this project to offer open access  
17      terminalling services or maintain a tariff and rate schedule  
18      for such services.

19           Instead, the Commission said it would view this  
20      new LNG plant as it would a production facility, allowing  
21      the sales of natural gas from the LNG plant to compete with  
22      other sales of natural gas for the Gulf Coast in a  
23      deregulated, competitive commodity market.

24           This new policy has had a very positive impact on  
25      LNG infrastructure development. Indeed, several other new

1       LNG import projects, both onshore and offshore, are at

1 various advanced stages of the planning and governmental  
2 approval process.

3 There are currently seven other LNG projects  
4 seeking construction authorization from the Federal  
5 Government. These projects would have a potential maximum  
6 sendout of 5.8 billion cubic feet of natural gas per day.

7 There are five projects pending at the  
8 Commission, two of which are using the Commission's NEPA  
9 prefiling process, and two offshore deepwater terminal  
10 applications are also pending at the Coast Guard.

11 The Final Environmental Impact Statement for this  
12 project was issued in August, and about 460 copies were  
13 mailed to agencies, groups, and individuals on the mailing  
14 list. The Final EIS addresses the comments of 17  
15 individuals, received at a public meeting, and 18 written  
16 comments.

17 Publication of the Draft EIS in March was  
18 preceded by many months of detailed study by the Commission  
19 Staff, of the soundness of the project's design, safety of  
20 its operations, and its impacts on the environment.

21 The draft Order before you requires Cameron LNG  
22 to comply with various environmental and safety conditions  
23 recommended in the Final EIS.

24 These recommendations are the product of efforts  
25 of several cooperating government agencies and the

1 participation of many private parties that will be affected  
2 by the project.

3 For example, in development of the Final EIS,  
4 potential ship traffic congestion impacts from additional  
5 LNG ship traffic were examined. Factors causing vessel  
6 delays, as well as specific operational differences between  
7 LNG vessels and other large vessels in the Calcasieu Ship  
8 Channel were evaluated.

9 The draft Order recommends mitigation measures  
10 which would benefit all Channel users and may reduce some of  
11 the current sources of vessel delays. One such measure is a  
12 requirement that Cameron LNG file a plan with the Commission  
13 and the Coast Guard that shows how they will provide for  
14 dedicated tug services for LNG ships using their terminal,  
15 so that their project would not affect the availability of  
16 tugs for other vessels in the Channel.

17 Also, as discussed in the Final EIS, the  
18 construction of the proposed LNG facility would affect about  
19 55 acres of wetlands. The draft Order requires Cameron LNG,  
20 in consultation with the U.S. Army Corps of Engineers, the  
21 National Marine Fisheries Service, and the U.S. Fish and  
22 Wildlife Service, and several state natural resources  
23 agencies, to prepare a plan to mitigate for the permanent  
24 loss of these wetlands.

25 Cameron LNG will create at least 85 acres of

1 coastal marsh in the area near the proposed terminal site,  
2 using material dredged from the construction of the  
3 facility.

4 Finally, Staff completed a cryogenic design and  
5 technical review of the proposed LNG terminal. The  
6 cryogenic design and technical review emphasizes engineering  
7 design and safety concepts and the expected operational  
8 reliability of the proposed facilities.

9 Several areas of concern were noted, and specific  
10 recommendations to be addressed prior to construction were  
11 identified and have been included in the draft Order.

12 The draft Order before you would also grant  
13 Cameron's request to allow it up to five years to place the  
14 project in service, instead of the three years previously  
15 allowed in the preliminary determination.

16 Also, the draft Order grants the Company's appeal  
17 of a requirement that it file its customer contracts prior  
18 to commencing construction of its facilities. Under the new  
19 policy for LNG terminals mentioned earlier, the draft Order  
20 states that the Commission has no regulatory need to see  
21 such contracts, and agrees with the Company that they need  
22 not be put in the Commission's public files. That concludes  
23 my presentation, and the team that worked on the project is  
24 here to answer any questions.

25 COMMISSIONER BROWNELL: I have two questions --

1       actually three: You referred to plans to deal with  
2       congestion problems that may result as the consequence of  
3       this plan, but if I understood you, there are already  
4       congestion problems; that, in fact, the addition of this and  
5       the new kind of set of requirements that we have, would  
6       solve an existing problem. Did I understand that?

7               MR. FOLEY: This will all help to solve the  
8       problems. Terry may be able to comment more on the ship  
9       issues.

10              COMMISSIONER BROWNELL: Okay.

11              MR. TURPIN: Yeah, that's pretty much the case.  
12       There were several recommendations that were made in a  
13       previous case on the same shipping channel, the trunk line  
14       LNG facility that was before the Commission, I think, in  
15       last December.

16              And some of those mitigation measures, coupled  
17       with the recommendation that had Cameron supply or secure  
18       dedicated tug services, will help us with the delays  
19       throughout the Channel for all the users.

20              COMMISSIONER BROWNELL: On the issue of safety,  
21       which is always an issue that we hear when we're out on the  
22       road, describe, if you will for us, how we're managing to  
23       address some of those safety issues and the work we're doing  
24       with the other agencies, including, I think, the Coast  
25       Guard. I think people need to get a clear understanding and

1       some confidence in the fact that we take their concerns very  
2       seriously.

3               MR. TURPIN: Well, as far as the Coast Guard  
4       goes, they have reviewed our marine safety section. The  
5       section in our Final EIS was actually prepared in  
6       consultation with them, and many of the safety matters were  
7       addressed also in consultation with the Department of  
8       Transportation and the Office of Pipeline Safety.

9               We met with them on one occasion to discuss some  
10      of the exclusion zones that will surround the facility.  
11      They are there for the protection of the public in case  
12      there's an LNG release.

13              We also looked at the preliminary engineering  
14      design from the perspective of evaluating the safety  
15      concepts and the design that they've used to ensure that the  
16      plant will run well.

17              MR. FOLEY: There's a very extensive program that  
18      the Office of Energy Projects has of inspecting LNG plants  
19      as they are being constructed, and, after they're being  
20      constructed, as they're being operated. And there's some  
21      manuals that are adhered to and ongoing recommendations that  
22      are made concerning all types of issues of safety and  
23      ongoing operations. So that's the program that we have  
24      internally, plus coupled with all the cooperation with other  
25      agencies, we've been able to make a very good safety package



1       for LNG plants.

2               COMMISSIONER BROWNELL: The third issue is that  
3       there was quite extensive work done on addressing the  
4       environmental concerns, I think, that were raised by a  
5       number of parties.

6               And I appreciate the work that you did there and  
7       feel comfortable that we have and will continue to evaluate  
8       any future issues that may arise as the project moves  
9       forward. I think the Company has taken their environmental  
10      stewardship quite seriously, so I was pleased to note the  
11      extensive review that you gave.

12              And I'm excited about this project because I  
13      think we've seen this summer and will continue to confront  
14      the issues of enough of this valuable resource and  
15      developing alternative sources, I think is incredibly  
16      important as long as we can balance the other issues, which  
17      I think this project has done. So, I'm glad to support it  
18      and thank you for your lots of work that you've done here.

19  
20              COMMISSIONER MASSEY: Let me ask this question:  
21      The sponsors say that it will take them 37 months, roughly,  
22      to build this project. Is that a generic rule of thumb, or  
23      is that because of the unique aspects of this project? Do  
24      you have an opinion about that?

25              MR. FOLEY: The tank sizes are larger than

1        previously constructed. I think that's going to take quite

1 a bit of engineering and design and construction. And the  
2 site -- the materials have to be brought to the site, so  
3 three years to build a major project like this is not too  
4 far off the ball park, if you look at something like the  
5 Woodrow Wilson Bridge, which is taking five years or ten  
6 years to build.

7 It's a major project, and the investment and the  
8 size and the complexity is -- three years is a pretty good  
9 ball park, and they had requested that we just let them  
10 allow up to five years, because if they go over a little  
11 bit, they won't have to come back for any extensions, and I  
12 think Sempra Energy, as the new sponsor, will be committed  
13 to go forward and start construction and start their further  
14 preparations before they can start.

15 There are a lot of efforts that go into it.  
16 Before they can start construction, there's requirements and  
17 studies and reports that they have to submit back, and then  
18 the Director of the Office of Energy Projects will release  
19 the permission for construction to begin.

20 MR. ROBINSON: Commissioner, in discussions we've  
21 had with proponents of LNG facilities around the country, it  
22 seems like three years is almost the standard that you hear  
23 from everyone, that it will take about three years to  
24 construct the project.

25 COMMISSIONER MASSEY: Thank you. Aye.

1                   COMMISSIONER BROWNELL:   Aye.

2                   CHAIRMAN WOOD:   Aye.

3                   I think everybody remembers on the day of  
4 something significant, where were you when something  
5 happened. On the day -- actually, on the continuing day of  
6 the blackout, I was at the sister terminal at Trunkline,  
7 right up the river from this one in Louisiana. I have to  
8 say that when I looked at the size of the investment in the  
9 infrastructure, it is significant. As Rich mentioned, the  
10 tanks there -- they're doing three of those tanks, which is  
11 what they have at Trunkline, too, that's big, and they're  
12 building it in the swamps. I think there's probably going  
13 to be some remediation work on the foundation that's going  
14 to have to be done there, so it's a great technology.

15                  I was there actually when a ship came in, and I  
16 saw the offloading. There's a lot to see in the offloading  
17 that you wouldn't see on basically any liquid cargo, but it  
18 was a pretty impressive operation.

19                  And we were there, interestingly enough, with the  
20 woman who is head of the Sabine POC, which is the next  
21 watershed over, which are the -- actually, my great  
22 grandfather was one of the original ones, but they move --  
23 they escort the boats of any size, and particularly of any  
24 kind of cargo nature, from the Gulf into the berth, so there  
25 are people whose professional job it is to guide these

1 large ships up and down.

2 And so she was over looking at that in Lake  
3 Charles, just to kind of get a sense for -- they're talking  
4 about an LNG in the same watershed where she is. They're  
5 just getting a sense for what's involved there, and so we've  
6 talked to the pilots and the Calcasieu Watershed. So that  
7 was kind of a forgotten role, but it is one that I think  
8 came up in this particular record as you just discussed with  
9 the gang here.

10 And it's well provided for. I think there are  
11 professionals out there in the local area who do this for a  
12 job, to make sure that those safety issues are properly  
13 addressed. So, this is good to see. It's rare that in such  
14 a brief time on the Commission, we've already discussed  
15 policy, evaluated it, changed it, and seen actually a  
16 business response to some changes in our policy that could  
17 lead to significant improvement in our natural gas supply  
18 picture. So this is good stuff.

19 Before the meeting closes, my golly, I think we  
20 have one more --

21 SECRETARY SALAS: Yes. Mr. Chairman and  
22 Commissioners, I did not read Items C-6 and C-16 as part of  
23 your consent agenda, so what I would like to do, if I may,  
24 is to take an additional consent vote on those items.

25 COMMISSIONER MASSEY: Aye.

1 COMMISSIONER BROWNELL: Aye.

2 CHAIRMAN WOOD: Aye.

3 SECRETARY SALAS: Thank you.

4 CHAIRMAN WOOD: Before we close, I'd like to say  
5 that the events of August 14th and 15th to the North and  
6 Northeast and Northwest of here, were significant ones for a  
7 huge part of the population on our continent, and I want to  
8 express my appreciation for the hard and immediate response  
9 of the folks on our staff to addressing the crisis and doing  
10 what we can to help in addressing it, both on the short term  
11 and the long term.

12 A number of other agencies here in town and at  
13 the state levels, as well as NERC, were involved in this  
14 effort and have continued to be involved in this effort. I  
15 also want to tip my hat to them and to the other hardworking  
16 professionals in both the United States and Canadian  
17 utilities at MISO, at the New York ISO, at PJM, at the IMO  
18 in Ontario, and others that worked really hard to get these  
19 lights back on in a day or slightly over a day.

20 The joint U.S.-Canadian Task Force will continue  
21 its work on both the cause of the event and on its  
22 propagation throughout such a large area, and then once  
23 having found facts, move on to some policy recommendation  
24 phase.

25 Allison Silverstein from my Staff is our rep to

1       the working group leadership, and god help anybody that  
2       doesn't do their work.

3                       (Laughter.)

4                       CHAIRMAN WOOD:  It's important to understand this  
5       voltage collapse, exactly what it is and what on our side,  
6       we can do to make sure that it doesn't happen again  
7       elsewhere, but also to work more broadly with other agencies  
8       as well as our folks in Congress to make sure that we and  
9       others have sufficient authority to address these issues so  
10      that we do learn from what happened here.  So, out of every  
11      event comes an opportunity to clarify things, and I think  
12      that this is clearly one of those.

13                      So, the summer is officially over and we're back  
14      to work.

15                      COMMISSIONER BROWNELL:  Did we have a week?

16                      (Laughter.)

17                      CHAIRMAN WOOD:  We'll see you in three weeks.  
18      Meeting adjourned.

19                      (Whereupon, at 12:00 noon, the open meeting was  
20      concluded.)

21

22

23

24